

Message Text

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ACTION ARA-20

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03

NSC-10 PA-04 PRS-01 SS-20 USIA-15 CEA-02 STR-08 SAJ-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 5003

USDOC WASHDC

INFO AMEMBASSY MONTEVIDEO

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C O N F I D E N T I A L BUENOS AIRES 0411

PASS EXIMBANK

E.O. 11652: GDS

TAGS: EFIN, BEXP, AR

SUBJECT: SOVIETS FAVORED TO WIN BID ON SALTO GRAND HYDRO-
ELECTRIC PROJECT

BEGIN UNCLASSIFIED 1. BIDS FOR BOTH THE EQUIPMENT AND CIVIL WORKS WERE OPENED ON SCHEDULE BY THE SALTO GRANDE MIXED TECHNICAL COMMISSION (CTM) THEY ARE NOW BEING EVALUATED WITH THE ASSISTANCE OF US ENGINEERING CONSULTANT, CHARLES T. MAIN, AND AWARDS ARE EXPECTED TO BE ANNOUNCED BY MID-1974. NO US FIRMS PARTICIPATED IN THE CONSORTIA WHICH BID ON THE CIVIL WORKS, FOR REASONS WHICH ARE NOT CLEAR TO US. AS FAR AS EMBASSY CAN DETERMINE NONE EVEN ATTEMPTED TO PREQUALIFY. A GROUP HEADED BY AN ITALIAN FIRM WAS LOW BIDDER.

2. TWO US FIRMS (ALLIS CHALMERS AND WESTINGHOUSE, THE LATTER IN ASSOCIATION WITH FRENCH AND AUSTRIAN FIRMS) BID ON ALL OR
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PART OF THE TUROGENERATOR GROUPS AND RELATED EQUIPMENT.
OTHER BIDDERS WERE THE RUSSIANS (WHO, CONTRARY TO EXPECTATIONS,

DID NOT ALSO BID ON THE CIVIL WORKS), THE YUGOSLAVS, A JAPANESE FIRM, AND A GERMAN-ITALIAN CONSORTIUM. EACH FIRM WAS REQUIRED TO MAKE TWO BIDS: ONE BASED ON IMPORTED EQUIPMENT (VARIANT A), AND THE SECOND INCLUDING 20 PER CENT LOCAL COMPONENT (VARIANT B). THE BIDS ARE LISTED BLOW IN ORDER OF COMPETITIVENESS:

	VARIANT A (WHOLLY IMPORTED COMP)	VARIANT B (WITH SOME LOCAL COMP)
3,34&9.-:# 3/0945-	US\$ 65.0 M	US\$ 88.0 M
(SOVIETS; REPRESENTED LOCALLY BY INGENIERIA TAURO)		

INGRA ARGENTINA S.A.	US\$71.8 M	US\$ 83.7 M
(YUGOSLAV OFFER; SOME RUSSIAN EQUIPMENT AS PAR OF THEIR PACKAGE.)		

ALLIS CHALMERS	US\$ 96.5 M	US\$117.0 M
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VALCRELO WECOSA	US\$107.5 M	US\$116.1 M
(AUSTRIAN & FRENCH FIRMS IN COMBINATION WITH WESTINGHOUSE)		

GE SIEMENS ESCHER	US\$111.7 M	US\$127.5 M
WYSS (WESTERN EUROPEAN GROUP)		

PALMAT S.A.	US\$118.8 M	NOT AVAILABLE
(JAPANESE)		

3. NOT ONLY WAS THE SOVIET OFFER THE LOWEST FOR THE VARIANT A CATEGORY ON WHICH RANKING IS BASED - US\$30 MILLION OR 33 PER CENT LESS THAN THE LOWEST "NON-SOCIALIST" BID (AND US\$53 MILLION LESS THAN THE HIGHEST BIDDER) BUT THEIR TERMS ARE ALSO UNUSALLY FAVORABLE: (A) TERM: GRACE AND AMORTIZATION PERIOD AS PER BID SPECIFICATIONS (REPAYMENT IN 20 SEMI-ANNUAL INSTALMENTS BEGINNING UPON INSTALATION OF EACH TURBOGENERATOR GROUP) WITH OPTION TO REPAY
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PARTLY IN KIND; (B) INTERST RATE: 4 PER CENT (FIXED); (C) LOCAL COST FINANCING: DIRECT LOAN TO US\$10 MILLION FOR FINANCING ERECTION OF IMPORTED AND LOCAL EQUIPMENT. ADDITIONALLY, RUSSIANS REPUTEDLY HAVE AS MUCH OR MORE EXPERIENCE WITH TURBINES OF THE SIZE (135 MW, LOW HEAD) CONTEMPLATED AS ANY WESTERN FIRM. END UNCLASSIFIED

BEGIN CONFIDENTIAL 4. LOCAL SOURCES TELL US THAT THIS IS THE FIRST INTERNATIONAL BID IN WHICH SOVIETS HAVE PARTICIPATED IN LATIN AMERICA.

THEIR PURPOSE IN ENTERING THIS COMPETITION MAY WELL BE PRIMARILY POLITICAL, BUT IT CERTAINLY WILL NOT HURT THEIR CHANCES OF BEING

SUCCESSFUL IN UPCOMING EQUIPMENT BIDS FOR ARGENTINE/PARAGUAYAN HYDROELECTIC PROJECTS OF YACIRETA-APIPE AND CORPUS AND OTHER MAJOR ARGENTINE ENERGY PROJECTS.

5. ALLIS CHALMERS AND WESTINGHOUSE REPS POINT OUT THAT IT IS NOT POSSIBLE FOR WESTERN FIRMS TO COMPETE WITH SUCH OBVIOUSLY "POLITICAL" FINANCING TERMS AS THE SOVIETS ARE OFFERING. US FIRMS' REPS BELIEVE THAT UNLESS THE OFFER IS DISQUALIFIED ON TECHNICAL GROUNDS IT WILL BE ACCEPTED, DESPITE WHAT MAY BE VIEWED BY THE URUGUAYAN GOVERNMENT AND SOME ARGENTINES AS THE DANGER OF HAVING SOVIET "TECHNICIANS" ON THEIR SOIL. (REPORTEDLY, THE SOVIET BID EMPHASIZES THEIR INTENTION TO MINIMIZE PRESENCE OF SOVIET PERSONNEL.)

6. WE AGREE. PRESS REPORTS THAT SECRETARY GOA MINISTRY OF ENERGY, HERMINIO SBARRA, HAS PUBLICLY (AND INAPPROPRIATELY) REMARKED THAT SOVIET OFFER IS "THE BEST". WE DO NOT FEEL GOA WOULD REJECT SUCH A FINANCIALLY ADVANTAGEOUS OFFER ON POLITICAL GROUNDS AND BELIEVE THEIR PREPONDERANT SHARE OF THE PROJECT FINANCING AND URUGUAY'S URGENT NEED FOR HYDROELECTRICITY TO REDUCE PETROLEUM IMPORT BILL, WILL BE ENOUGH TO ENABLE THE ARGENTINES TO OVERCOME URUGUAYAN OBJECTIONS.

7. EMBASSY HAS INFORMATION FROM SOURCE CLOSE TO CTM INDICATING THAT TECHNICAL QUALITY OF A BEARING USED IN SOVIET TURBINES IS UNDER CLOSE EXAMINATION AND THAT SOVIET OFFER COULD BE REJECTED SHOULD BEARING BE FOUND DEFICIENT. THIS EVENTUALITY, NEVERTHELESS, SEEMS REMOTE TO EMBASSY. OTHER POSSIBLE PROBLEMS CTM MAY HAVE WITH RUSSION OFFER IS ACCESSIBILITY TO SOVIET PLANTS FOR PURPOSES OF INSPECTING EQUIPMENT AT VARIOUS STAGES OF MANUFACTURE, AND THE ASSURANCE THAT REPLACEMENT PARTS WILL BE AVAILABLE IF AND WHEN
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REQUIRED.

8. WE ARE ALSO TOLD THAT YUGOSLAV OFFER WOULD, IN ALL LIKLIHOOD, BE FOUND DEFICIENT AND DISQUALIFIED IF RUSSIAN OFFER REFUSED, LEAVING ALLIS CHALMERS IN TOP POSITION IN COMPETITION.

9. ACTION REQUESTED: US FIRMS' REPS HAVE ASKED US WHETHER THERE IS ANYTHING USG CAN AND WILL DO TO PROTEST SOVIET TACTICS AND HAVE THEIR BID REJECTED IN PRESENT CASE, AND FOR THE FUTURE TO PERSUADE OR FORCE SOVIETS TO ABIDE BY ESTABLISHED INTERNATIONAL RULES FOR TENDERING CAPITAL EQUIPMENT. IN VIEW OF STRONG POSSIBILITY A US FIRM WOULD BE SUCCESSFUL IS SOVIETS DISQUALIFIED WE EXPEC
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